

# **FY 2007 FIRE SUPPRESSION COSTS**



A Report Prepared for the  
**Legislative Finance Committee**

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## FY 2007 FIRE SEASON

The fire season started early this year and continued into mid- September until the rains arrived. Montana experienced 2206 fires burning approximately 845,542 acres across all protection and all land ownership. The department of Natural Resources and Conservation provided initial attack on 367 fires, holding 352 to ten acres or less. In the county assistance program, DNRC provided assistance on an additional 178 fires for an additional 300,000 acres.

Suppression costs in a severe season are eye-opening. As of September 14, 2006 the state has incurred \$59.1 million in fire suppression costs, of which \$22.9 is reimbursable from other sources, creating a net cost to the state of \$36.1 million. This total compares to an average fire season cost prior to FY 2007 of \$7.0 million. This report will address how these costs will be paid in absence of appropriation authority.

### FY 2007 SUPPRESSION COSTS

Suppression costs are estimated on a weekly basis, and then adjusted as actual bills are received and eventually paid by the state. Figure 1 depicts the financial state of the FY 2007 fire season as of September 21, 2006.

The state has already paid \$11.5 million in fire suppressions costs and has estimated additional obligations at \$42.2 million. Costs to date have been paid from the Governor's emergency fund (\$9.5 million) and non-restricted general fund appropriations made for the Forestry Division within DRNC (\$2.0 million). The department is estimating reimbursement from the Federal Emergency Management Agency (FEMA) of \$14.8 million and payment from other federal entities for utilizing DNRC resources on federal fires of \$8.1 million. The remaining \$26.6 million is the estimated unpaid obligation of the state.

Figure 1 Department of Natural Resources & Conservation FY 2007 Wildland Fire Suppression Costs Through 9/21/2006	
<u>Actual Fire Suppression Costs</u>	
Suppression Costs Paid	\$11,467,933
Estimated Costs Not Paid:	<u>47,677,250</u>
Paid & Estimated Obligations	\$59,145,183
<u>Reimbursement Sources</u>	
Governor's Emergency Fund	(\$9,500,000)
Anticipated Reimbursements	<u>(22,983,650)</u>
Federal Agencies	8,180,922
FEMA	14,802,728
Remaining State Obligations	<u>\$26,661,533</u>

### SIZE OF THE SUPPLEMENTAL

The potential supplemental appropriation will be the cumulative state costs for both FY 2006 and FY 2007, less the amount that has been reimbursed by the Governor's emergency fund. Figure 2 summarizes the potential supplemental appropriation of \$29.2 million, which assumes that an additional \$1.0 million will be requested for spring fires.

Figure 2 Wildland Fire Suppression Costs Calculation of Supplemental Appropriation			
	Net State Costs	Gov. ER Fund	Remaining
FY 2006	\$5,739,870	\$688,022	\$5,051,848
FY 2007	36,136,033	13,000,000	<u>23,136,033</u>
Current Supplemental Requirement			\$28,187,881
FY 2007 Spring Fire Costs Estimate			1,000,000
Anticipated Supplemental Requirement			<u>\$29,187,881</u>

million was incurred by the state and will need to be paid by the state regardless of when the reimbursements are received from federal agencies (predominately the US Forest Service) and FEMA. The general fund ending balance is sufficient to cover all costs, but the issue is whether DNRC has the appropriation authority access the cash. IF there is insufficient access to cash, the legislature would have to meet in special session to provide the funds.

### CRITICAL SITUATION

As demonstrated in Figure 1 – the actual costs to the state are \$36.1 million of which \$9.5 has been covered by the Governor's emergency fund. The reality is that all \$59.1

To determine DNRC's ability to meet obligations and continue to operate, the availability of federal funds and access to general fund need to be discussed.

## **FEDERAL REIMBURSEMENTS**

### **Federal Agencies**

The US Forest Service (USFS) and other federal agencies have reciprocal suppression agreements with DNRC concerning land protected by each entity. In some years, the state owes the USFS and in others they owe the state. The process to receive reimbursement from the USFS (and other federal agencies) is fairly straightforward. DNRC provides appropriate documentation of costs incurred. The federal agency audits the documentation and provides appropriate reimbursements. Reimbursements for services are typically received in the February following fire season.

### **FEMA**

Reimbursement from FEMA is a different story. Traditionally FEMA has not been timely. As an example, prior to the out break of the FY2007 fire season, the state received the final payment on the FY 2004 fire season from FEMA. While the reimbursement process is similar to other federal agencies, when other pressing natural disasters occur FEMA priorities are shifted, often causing a delay in wildland fire assistance.

In addition, FEMA declarations are data and time sensitive, and are based upon allowable costs. For example, the total obligation of the state for the Derby Fire is approximately \$13.2 million; reimbursement from FEMA is anticipated to be \$7.9 million, or 60 percent of total costs, due to the declared time period and actual allowable costs.

## **ACCESS TO GENERAL FUND**

The key concern for the committee is to achieve assurance from DNRC that the agency can continue to meet cash obligations and operate the department until the 2007 Legislature convenes. In previous years, the department had secured access to the general fund by pledging a subsequent supplemental appropriation from the legislature. However, in 1988, Attorney General, Mike Greeley ruled:

“The budget amendment process was not intended to permit a loan from the state's general fund, where the only anticipated revenue for repayment is the possibility of a subsequent appropriation of funds from the general fund.”

While the department can not pledge a potential supplemental appropriation, they can pledge future reimbursements as collateral. The current plan can be summarized as follows:

- 1) Procure a \$10 million general fund loan by pledging USFS & FEMA reimbursements as collateral
- 2) Transfer the general fund loan proceeds to the state special revenue fire assessment fund
- 3) Request emergency state special revenue authority through the budget amendment process.

This plan, coupled with cash management techniques, and negotiations with creditors and the like should enable the department to maintain until the legislature convenes. Given the size of the fire bill, the supplemental appropriation bill for DNRC will be in front of the legislature within the first few days of session. If such a supplemental appropriation is approved, DNRC will then be able to finish paying for the FY2007 fire season.

## **CONCLUSION**

The FY 2007 fire season resulted in \$59.1 million in estimated cost, of which, after cost-settlements and reimbursements, \$36.1 will be the responsibility of the state. The legislature should have assurances from

DNRC that the department is capable to operate until such a time that the 2007 legislature convenes, and considers a supplemental appropriation.

Options to avoid this cash crunch situation are discussed in a second report to the Legislative Finance Committee entitled "Fire Funding Options".

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